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(Results of)

TESTING PROJECT PRIME

AT THE

MARINE CORPS BASE, QUANTICO, VIRGINIA

by

EDMUND JOSEPH REGAN II

Bachelor of Science
Seton Hall University, 1952

A Thesis Submitted to the
School of Government and Business Administration
of the George Washington University
in Partial Fulfillment of the Requirements for the
Degree of Master of Business Administration

JUNE 1968

Thesis directed by

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The opinions contained in the final chapter of this paper soley represent those of the author and in no way reflect official Marine Corps policy. Neither should they be interpreted as the opinions of any one of the number of people who so graciously assisted me in this endeavor.

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CHAPTER I

INTRODUCTION

In 1961, when the late President John F. Kennedy swore into office Robert S. McNamara as the eighth Secretary of Defense, he instructed the Secretary to develop the military force structure necessary to support our foreign policy without regard to arbitrary budget ceilings and to procure and operate that force at the lowest possible cost. With this statement the President launched, within the Federal Government, a series of fiscal changes whose reverberations are still being heard.

McNamara, a strong proponent of scientific management procedures, brought his considerable skills to bear upon the problem. Bringing together on his staff in the Department of Defense a team of extremely skilled administrators and managers, the Secretary was able to utilize the latest techniques of scientific management to bring about the changes desired by the President. Regardless of how effective and apparently revolutionary McNamara's approach was, it should be remembered that the ground work for many of his accomplishments had been laid in the years between 1950 and his appointment. Without a leader of his force, however, it is doubtful that the United States could have made the vast achievements in defense management that it has in the past seven years.

While it is not the intent of this paper to attempt to pass judgement on the accomplishments of the McNamara years, one cannot deny that McNamara has accomplished much. His shadow looms so large that no discussion of financial practices within the Department of Defense can have validity without an examination of the programs he proposed and the procedures he espoused.

The changes within the Department of Defense are but a part of a larger program of improvement within the Federal Government which had its genesis during the Truman administration and continues to be vigorously pursued under the Johnson administration's Joint Financial Management Improvement Program.

In a memorandum dated May 24, 1966, President Lyndon B. Johnson stated that business-like financial systems are necessary throughout the Federal Government, and he has indicated as a goal those systems which:[1]

> provide the information our managers need for effective cost control — for waging the war on waste,
>
> develop cost consciousness in men and women at every level of responsibility in every agency,
>
> assure financial integrity in everything the Government does,
>
> provide the types of financial data needed to support the planning-programming-budgeting system initiated last August, and
>
> enable the Government to apply the best and most efficient management and operating techniques.

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[1] U. S. President, 1963 — (Johnson), Memorandum for the Heads of Departments and Agencies, May 24, 1966. (The White House, Washington), pp. 1 & 2.

In this memorandum, President Johnson requested that the head of each executive department and agency take immediate action to:[1]

- Insure that the system of accounting and internal control in his agency meets management needs and conforms to the principles, standards, and related requirements prescribed by the Comptroller General.
- Work with the Civil Service Commission in developing a more vigorous program for recruiting and developing the professional personnel to design and operate effective financial management systems.
- Assure that financial reports and cost data provide adequate support for the planning-programming-budgeting system.
- See that the agency's managers are given the basic tools they need — responsibility centered cost-based operating budgets and financial reports — for setting and achieving maximum cost reduction goals.

The Department of Defense program which implements financial and management improvements is a planning-programming-budgeting system entitled Resource Management Systems. This and its first effort, termed Project PRIME (an acronym for PRIority Management Efforts), are the culmination of two decades of effort to improve management control systems in the Department.

Despite its lengthy historical development, Resource Management Systems within the government has remained a somewhat unknown quantity. To explain its function, this introductory chapter will present

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[1] Ibid.

a brief overview of the history, purposes, and concepts of Resource Management Systems and Project PRIME. Subsequent chapters will describe their evolution and discuss the results of the test of Project PRIME at the Marine Corps Base, Quantico, Virginia.

Although the term Resource Management Systems is new, the managerial techniques which it espouses are the results of an evolution which began in the early 1950's. In an address in 1966 before the Financial Management Roundtable, Assistant Secretary of Defense (Comptroller) Robert N. Anthony described this evolution thus:[1]

> For over a year, we have been making plans for the general improvement of resource management systems in the Department of Defense. We are not doing this simply because the idea suddenly occurred to us. Indeed, we are responding to mandates that go back to the Budget and Accounting Procedure Act of 1950, as amended by Public Law 865, and that are as recent as the memorandum from the President, dated May 24, 1966, requesting all Departments and Agencies to accelerate the pace of the Joint Financial Management Improvement Program.
>
> But our purpose in undertaking this effort is not merely to comply with executive and legislative requirements. Our interest is in the manager, in enabling him and in motivating him to do the best, the most effective, and the most efficient job of which he is capable. Our purpose is to provide the manager with the tools to do such a job.
>
> Our present program builds on work that has been under way for a number of years. The Controller of the Defense Department, Wilfred J. McNeil, worked out most of the concepts that we are applying today, and implemented many of them. Indeed, whenever someone says that what we are now doing is revolutionary, I must in all

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[1]Robert N. Anthony, "Closing the Loop," Address to the Financial Management Roundtable, Washington, D. C., October 25, 1966.

> candor refer them back to Mr. McNeil's memoranda of the 1950's. There is little that we are now planning that he had not already thought of ten or fifteen years ago.
>
> Moreover, the Five-Year Defense Program, conceived by Secretary McNamara in 1961 and worked out under the leadership of Charles Hitch, was a fundamental prerequisite to the improvements of resource management systems. It gave us a meaningful and orderly program structure against which to budget, account, and measure performance. The task of installing the program structure and related processes was so huge that Mr. Hitch decided that full attention would be devoted to it, and that its integration with budgeting and accounting would have to come later. It is that part of the job on which we are now working.

When McNamara took office he found that the planning and programming systems in use in the Department of Defense were not sufficiently well developed to permit him to do the job President Kennedy desired. He was appalled at the differences within the military departments.

> . . . we found that the three military departments had been establishing their requirements independently of each other. I think that the results can fairly be described as chaotic: the Army planning, for example, was based, largely, on a long war of attrition, while the Air Force planning was based, largely, on a short war of nuclear bombardment. Consequently, the Army was stating a requirement for stocking months of fighting supplies against the event of a sizable conventional conflict, while the Air Force stock requirements for such a war had to be measured in days, and not very many days at that.[1]

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[1]Robert S. McNamara, Address before the American Society of Newspaper Editors, Washington, D.C., April 30, 1963.

In another instance he stated that the United States Army, "while in general far short of its stated requirements, had 270% of its requirements for 105mm towed howitzers, 290% of the requirements for 4.2-inch mortars; we had ten times as many 2.75-inch rockets as were required."[1]

Deputy Assistant Secretary of Defense for Systems Analysis, Alain Enthoven, pointed out many of the difficulties of the system of budgeting in use under President Dwight D. Eisenhower when he stated:[2]

> It had several important defects, perhaps the most important of which was the almost complete separation between planning and decision-making on weapon systems and forces, on the one hand, and budgeting on the other . . . In other words, the long-range plans for weapon systems, forces, and all of their supporting elements were made by the Services on the basis of their estimates of the forces required to assure our national security. Generally speaking, costs were not introduced systematically, either to test the feasibility of the whole program or for purposes of evaluating the efficiency of the allocation.
>
> Budgeting, on the other hand, had as its point of departure the guideline dollar totals laid down by the Administration and based on estimates of the burden the economy could or should bear. The result was a gap. The "required forces" always cost much more than the Administration and the Congress were willing to pay. The process by which the conflicting interests were resolved was unsystematic and wasteful because it led to unbalanced programs.

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[1] Ibid.

[2] Alain C. Enthoven, Address before the American Economic Association, Pittsburgh, Pennsylvania, December 29, 1962.

> Furthermore, the Secretary of Defense did not receive adequate cost data. The budgetary system identified cost by object classes — Procurement, Military Personnel, Installations, etc. — the inputs to the Department of Defense, rather than by weapon systems and forces, such as B-52 wings and Army divisions, which are the tangible outputs of the Department . . . Moreover, cost data were presented and financial management was conducted at the Defense Department level on a year-at-a-time basis. The full time-phased costs of the proposed forces were not presented to the Secretary of Defense. Because the costs of most programs are small in their first years, this led to the starting of many programs that could not be completed at anything like existing budget levels. Although a certain amount of this is a desirable hedge against uncertainty, it is clear that there were a great many wasteful stretchouts and cancellations of programs that would not have been started if the costs of all of the approved programs had been anticipated.

Charles J. Hitch, Assistant Secretary of Defense (Comptroller) during the early days of McNamara's term, decried the former method of budget formulation known as the "budget ceiling" approach, which entailed a process of squeezing military service budget requests so as to make their final totals fit within an initial overall limitation established by the Bureau of the Budget acting for the President. Hitch found that the consequences of this approach were precisely what could have been predicted:[1]

> 1. Each service tended to exercise its own priorities:
>
> a. favoring its own unique missions to the detriment of joint missions;

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[1] Charles J. Hitch, Decision Making for Defense, (Berkely and Los Angeles, California: University of California Press, 1965), pp. 24-26.

b. striving to lay the ground work for an increased share of the budget in future years by concentrating on alluring new weapon systems; and
c. protecting the over-all size of its own forces even at the cost of readiness. . . .

2. Because attention was focused on only the next fiscal year, the services had every incentive to propose large numbers of "new starts," the full cost dimensions of which would only become apparent in subsequent years. . . .
3. Almost complete separation between budgeting and military planning.
   a. These critically important functions were performed by two different groups of people. . . .
   b. Budget control was exercised by the Secretary of Defense, but planning remained essentially in the services. . . .
   c. Whereas the planning horizon extended four or more years into the future, the budget was projected only one year ahead. . . .
   d. Planning was done in terms of . . . outputs; budgeting . . . in terms of inputs. . . .
   e. Budgeting, however crudely, faced up to fiscal realities; the planning was fiscally unrealistic, and therefore of little help to the decision-maker. . . .
   f. Military requirements tended to be stated in absolute terms, without reference to their costs.

To bring order to the system of planning in the Department of Defense and to prevent the proliferation of numerous weapon systems and tactical theories, McNamara determined that long-range programming and a system which provided an ability to chose between alternatives were absolute necessities. He introduced the use of cost effectiveness techniques to provide a better evaluation of alternatives. Hitch clearly stated the case for a long-range program:

> We need an economically realistic future program so that long-lead decisions on program components will have a reasonable chance of turning out to be right. To develop such a program, it is essential that the decision-makers have before them the total cost implications of alternative — not only total in the sense of cutting across appropriation categories, but also in the sense of being projected forward over a five-year period.[1]

The new philosophy in the Department of Defense closely related cost to results by asking, "What could be done best for the least cost?" It soon became clear that all future strategy would be weighed on this basis. The new philosophy was stated by Hitch and his colleague, Roland N. McKean, in this way:

> Strategy, technology, and economy are not three independent "considerations" to be assigned appropriate weights, but interdependent elements of the same problem. Strategies are ways of using budgets or resources to achieve military objectives. Technology defines the possible strategies. The economic problem is to choose that strategy, including equipment and everything else necessary to implement it, which is most efficient (maximizes the attainment of the objective with the given resources) or economical (minimizes the cost of achieving the given objective) — the strategy which is most efficient also being the most economical.[2]

Hitch and McKean further clarified the relationship between cost and strategy:

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[1] Ibid.

[2] Charles J. Hitch and Roland N. McKean, The Economics of Defense in the Nuclear Age (New York: Atheneum, 1965), p. 3.

> Strategy and cost are as interdependent as the front and rear sights of a rifle. One cannot assign relative weights to the importance of the positions of the front and rear sights. It does not make sense to ask the correct position of the rear sight except in relation to the front sight and the target. Similarly one cannot economize except in choosing strategies (or tactics or methods) to achieve objectives. The job of economizing, which some would delegate to budgeteers and comptrollers, cannot be distinguished from the whole task of making military decisions.[1]

In order to overcome the deficiencies of the former systems and to provide the Secretary with the tools he required, two systems were brought into being, the Five-Year Defense Program (formerly a part of the Five-Year Force Structure and Financial Program) and a planning-programming-budgeting system.

McNamara described the function of the planning-programming-budgeting system briefly in a discussion of his management philosophy.[2]

> It is through this system that we look at the defense effort as a whole. Major program priorities can be meaningfully determined only in terms of the total program, and a proper balancing of all the elements of the defense effort can only be achieved at the Department of Defense level. For example, the size of the Polaris force cannot be determined in terms of the Navy shipbuilding program or even the entire Navy program, but can be validly judged only in relation to all of the other elements of the

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[1] Ibid.

[2] U. S. Congress, House, Committee on Armed Services, Hearings on Military Posture, 88th Cong., 1st Sess., 1963, p. 501.

> strategic retaliatory forces — the B-52's, the Atlas, the Titan, and the Minuteman ICBM's. Similarly, the requirement for the Air Force tactical fighters cannot be determined independently of the requirement for Army ground forces. All such interdependent decisions must be made at one place in the defense organization, and in this process the Joint Chiefs and the Secretary must play a major role. Alone among the elements of the Department, they have the overall vantage point from which to reach sound recommendations on balanced military forces.
>
> While I believe that unified planning, programming, and decision-making are indispensable to the effective management of the defense effort, I am equally convinced that the actual operation of the program should be managed, to the maximum extent possible, on a decentralized basis. The defense effort is entirely too big, too complex, and too geographically dispersed for its operations to be managed from a single, central point.
>
> Thus, the organization and management of the Defense Department must be based on the principle of centralized planning and decentralized operation.

The culmination of the improvement efforts within the Department of Defense has been the development of Resource Management Systems. Specifically, Resource Management Systems can be defined as:

> Those methods and procedures used throughout the Department of Defense that (1) deal with <u>resources</u> (manpower, real property, weapons, equipment, services, materials, and supplies), (2) are intended to assist the <u>management</u> of such resources (planning, budgeting, acquisition, use, consumption, storage, and disposition), and (3) constitute <u>systems</u> (they involve recurring, orderly cycles of planning, reporting, and feedback information). Resource Management Systems affect the entire management process in the Department of Defense. This includes programming, budgeting, management of investment items, management

> of operations, accounting, reporting, and auditing. Note: Planning is often set forth as a separate management activity, but since programming and budgeting are parts of the planning process, it seems unnecessary to list planning separately.[1]

Important aspects of the Department of Defense programming system can be summarized under six points: formal, comprehensive, specific, reflecting decisions, dominate tool, and changes. The program is:[2]

- Formal because it is written and organized into meaningful classifications, and prepared for five years ahead (longer for some) for all activities.
- Comprehensive because it gives the full cost of the total enterprise for each of five years.
- Specific because it lists the inputs to the operation such as money, men, and things; and wherever possible, it lists the outputs. The inputs and outputs are not just displayed but displayed in relationship to one another—a meaningful relationship. For example, strategic offensive forces are gathered together under one heading, and beneath the general heading they are shown in considerable detail.

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[1] U. S. Department of Defense, Office of the Assistant Secretary of Defense (Comptroller), A Primer on Project PRIME (1966), p. 7.

[2] Ibid., pp. 24-25.

- Not a set of figures devised by planners. The program reflects actual decisions already made by managers and is a documentation of those decisions. The difference between devised and actual is extremely important since every figure in the program reflects the future consequences of management decisions over the next five years. The formal program reflects decisions already made.
- The dominant tool used in Defense Department management—not one of a large number of individual systems. The program is the nucleus for the whole formal management process, the primary system around which other planning and control devices must revolve. Operating management systems must be structured in similar terms so it can be determined how well the plan is being carried out and without such discipline and uniformity in the system, top management would be forced to make an endless series of adjustments and translations before they could obtain a unified picture of the entire organization.
- A formal procedure with specific management signatures pinpointing responsibility and authority for the decisions to change a plan. There is a continuous procedure provided for incorporating changes whenever decisions are made rather than concentrating them at one season of the year so the program itself is never out-of-date or obsolete.

The implementation of Resource Management Systems is a task of vast proportions. This was recognized early by Dr. Anthony, who grouped certain major changes in programming, budgeting, and accounting systems which were to go into effect on July 1, 1967 under the name Project PRIME. This name was chosen to underscore the urgency of completing a huge task within a short time.

Dr. Anthony explained the changes embodied in Project PRIME:[1]

> In discussing what the changes are, there is a danger of getting into too much detail and thus obscuring the main structure. Actually, this structure can be described in a very few points:
>
> 1. Project PRIME is focused on operating resources, as contrasted with investment resources. It has to do primarily with resources that are financed under the Operations and Maintenance and Military Personnel appropriations, not with the Procurement and Construction appropriations. Moreover, for FY 1968 at least, it does not propose significant changes in the research and development part of the program.
>
> 2. We plan to integrate programming, budgeting, and management accounting. This means that the information used in these three systems will be entirely consistent. A major part of this task has already been completed. We have rearranged the program structure so that there is a match between program elements and organization units. The best way to plan is in terms of program elements, but the best way—indeed the only way—to manage operations is by organization units. If one can't be matched to the other, then operations won't mesh with plans.
>
> 3. The focus is on expenses, that is, on the resources consumed by organization units in

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[1]Robert N. Anthony, "The What and Why of Project PRIME," Address to Defense Management Systems Course, Naval Postgraduate School, Monterey, California, August 5, 1966.

> carrying out their part of the program. Resources include labor, material, and services. The programming system has for years attempted to show expenses by program element, but the budgeting and accounting systems have not. In the budgeting and accounting systems perhaps 15% to 20% of the resources actually used by an organization are reported as costs of that organization. Our long-range goal is to charge an organization unit with 100% of the measurable expenses that it incurs.
>
> By expenses, I mean personnel costs, military as well as civilians; I mean the supplies used by the organization, including spare parts and other consumable material now carried in procurement accounts; and I mean the services received by the organization, including both services purchased from outside suppliers, and maintenance, repair, and services received from other units within DOD. By the word measurable, I mean to exclude allocated and prorated costs. We do not propose to charge each squadron with a share of Secretary McNamara's salary; we do not even propose to charge the squadrons on a base with a share of the administrative costs of the base. Nor do we have any intention of calculating a depreciation charge for an Army tank. Moreover, we propose that services be charged to benefitting units only when a practical, inexpensive way of measuring the cost of such services can be developed.

In order to accomplish changes of such a sweeping nature without operating two systems—an expense accounting system and an obligational accounting system—the approval of certain changes by both the Bureau of the Budget and the Congress would be necessary. Clearly, Dr. Anthony expected that such changes would be approved when he stated in a memorandum in March of 1967:[1]

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[1] U. S. Assistant Secretary of Defense (Anthony) Memorandum for Secretaries of the Military Departments et al. Financial Management Improvements, March 16, 1967, (Washington, D. C.), pp. 4-5.

> The Bureau of the Budget has agreed to recommend an amendment to the FY 1968 Budget on or before April 1. The present plan is that this amendment will propose an "Operations" appropriation for each Service and one covering OSD, OJCS, and the Defense Agencies in lieu of the present separate Military Personnel and Operation and Maintenance appropriations for the active forces. . . . Instead of the former "budget activities" in the Operation and Maintenance appropriations, the primary classifications beneath "Operations" will be the same as the major programs in the Five-Year Defense Program. . . .
>
> If this amendment is approved, the program system, the budget system, the accounting system, and associated reports for "operations" will be entirely consistent internally and externally.
>
> . . . If the Congress does not accept all aspects of the proposed amendment, then the system can be adopted to whatever modifications that the Congress approves. Any modification will weaken the effectiveness of the system for management, and some of the possible modifications will lead to increases in recordkeeping. In the extreme case—a prohibition against any change—considerable effort will be required to reclassify expenses from the program structure used for internal management to the "budget activity" structure in the Operation and Maintenance Appropriation.

Congress, however, did not approve the funds necessary for implementation of Project PRIME. After much consideration, on June 9, 1967, the House Committee on Appropriations reported:[1]

> The Committee has deleted funds budgeted in the Operation and Maintenance accounts for the so-called Resources Management System of the

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[1] U. S. Congress, House Committee on Appropriations, Department of Defense Appropriation Bill, 1968, Report No. 349 to Accompany H. R. 10738, 90th Cong., 1st Sess., 1967, p. 6.

> Department of Defense. The principal element of this system is known as Project PRIME, a proposal to completely alter the character of Defense budgeting and accounting so as to bring it in consonance with the program system of the Department.
>
> The Committee is of the opinion that this proposal appears to be a case of too much too soon. While it is undoubtedly true that significant changes in the budgeting and accounting system of the Department of Defense should perhaps be accomplished, and this is to some extent true of all agencies of the Federal Government, what is understood of the proposal under Project PRIME would indicate a massive change which to some extent would temporarily diminish Congressional control and which appears to be proposed for at least partial initiation without due regard to Congressional expression.

This attitude of Congress was accurately gauged by Aaron Wildavsky who, referring to an earlier reluctance on the part of Congress to accept changes in the budgetary area, stated:

> The tradition of reform in America is a noble one, not easily to be denied. But in this case it is doomed to failure because it is aimed at the wrong target. If the present budgetary process is rightly or wrongly deemed unsatisfactory, then one must alter in some respect the political system of which the budget is but an expression. It makes no sense to speak as if one could make dramatic changes in budgeting without also altering the distribution of influence.[1]

Although Congress prevented the full-scale implementation of Resource Management Systems on July 1, 1967, each of the military

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[1] Aaron Wildavsky, The Politics of the Budgetary Process (Boston: Little, Brown, and Co., 1964), pp. 131-132.

services is currently conducting a test of Project PRIME at one of their installations. The Marine Corps test is being conducted at Marine Corps Base, Quantico, Virginia. It is the purpose of this paper to examine the preliminary results of that test and to determine:

1. What was the stated intent and purpose of the test directive?
2. Has the test of Project PRIME as outlined in the test directive been successful?
3. What problem areas have been identified during the test?
4. What procedural improvements or modifications are to be recommended?
5. What changes in organization will be required to implement PRIME throughout the Marine Corps?

CHAPTER II

EVOLUTION OF RESOURCE MANAGEMENT SYSTEMS

Efforts to change and improve the process of financing federal expenditures have a history which dates back to the early years of this century.

Initial attempts at budgeting by the Executive Branch were made under President George Washington when Alexander Hamilton was Secretary of the Treasury. During the years 1789 to 1909, however, little effort was made to coordinate the budgeting procedures of the government. Governmental revenues were so high and expenses so low during this time that surpluses rather than deficiencies were the rule in the treasury.[1]

The situation was so favorable that James Bryce described it in this manner:

> Under the system of congressional finance here described, America wastes millions annually. But her wealth is so great, her revenue so elastic, that she is not sensible of the loss. She has the glorious privilege of youth, the privilege of

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[1] Ott and Ott, Federal Budget Policy, (Washington, D. C.: The Brookings Institution, 1965), p. 5.

committing errors without suffering from their consequences.[1]

During this time the major financial problem faced by Congress was the annual disposal of the large surplus. President Cleveland predicted that the surplus for FY 1888 alone would amount to $140,000,000.[2]

This "golden era" of federal finance came to an end during the administration of President Taft. Growing Federal activity and the Spanish-American War had increased expenditures so that they exceeded the revenues in customs and tariffs, which had not grown apace. Of the sixteen fiscal years from 1894 to 1909, ten were years in which a deficit was incurred.[3]

These problems and the results of efforts to reform municipal governments caused President Taft in 1910 to appoint a Commission on Economy and Efficiency to examine the operations of the Federal Government. Two years later the Commission report was presented to Congress. It strongly urged the establishment of a federal budget system. President Taft in his letter of transmittal echoed this recommendation.[4]

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[1]James Bryce, The American Commonwealth, Vol I, (London: MacMillan & Co., 1889), p. 179.

[2]Jesse Burkhead, Government Budgeting (New York: John Wiley & Sons, Inc., 1956), p. 11.

[3]Ott and Ott, p. 5.

[4]Ibid.

The Commission made several specific recommendations; one was a comprehensive executive budget which would be classified by program or function and would distinguish between expenditures for capital and for current items.[1] The recommendation of the Commission lay dormant until the political climate changed.

The drive for economy after World War I brought about the passage of the Budgeting and Accounting Act of 1921. This act implemented many of the suggestions of the Commission; it required the President to submit a comprehensive executive budget and to set up the Bureau of the Budget staff agency to assist him.[2] Nevertheless, the budget form itself was basically the same; it focused upon object of expenditure, not on the recommended program or function.

In the years of change immediately after World War II the Commission on Organization of the Executive Branch of the Government was formed. This Commission is popularly called the First Hoover Commission and will be so referred to in this paper. The First Hoover Commission found that, "The budget document itself, because of its size and complexity and its concentration on services and materials to be bought rather than programs to be undertaken, is a relatively ineffective

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[1] Arthur Smithies, "Conceptual Framework for the Program Budget" Program Budgeting, Program Analysis, and the Federal Budget, ed. David Novick, (Washington: Government Printing Office, 1965), p. 7.

[2] Ibid.

tool of management."[1] In order to produce a budget document which would be more useful to both the President and to Congress, the First Hoover Commission recommended that "the budget document be completely recast along the lines of work programs and functions. Such a document which we designate as a 'performance budget' . . ."[2]

Professor Jesse Burkhead, whose book Government Budgeting is one of the more authoritative texts on the subject, cites this definition of a performance budget:

> A performance budget is one which presents the purpose and objectives for which funds are required, the costs of the programs proposed for achieving these objectives, and the quantitative data measuring the accomplishments and work performed under each program.[3]

The National Security Act of 1947 made possible some preliminary efforts towards eliminating the proliferation of discrete appropriations and the necessity for Congress or its committees to hear literally dozens of different military officials. Much of this increase in numbers of separate appropriations had been due to the explosive growth of the

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[1] U. S. Commission on Organization of the Executive Branch of the Government, Concluding Report, (Washington: Government Printing Office, 1949), p. 13.

[2] Ibid.

[3] Burkhead, p. 142, quoting Chester E. Glassen, Development of the Performance Budget Structure in the Department of the Army, (Unpublished Master's Thesis), Syracuse University, 1953, p. 34.

defense establishment during World War II. Within a short time it was found that the National Security Act of 1947 was not sufficiently explicit in this area. It was, therefore, strengthened and amended in 1949. These amendments implemented the proposals of the First Hoover Commission directing that the budget estimates of the Department of Defense:

> . . . shall be prepared, presented, and justified, where practicable, and authorized programs shall be administered, in such form and manner as the Secretary of Defense, subject to the authority and direction of the President, may determine, so as to account for, and report, the cost of performance of readily identifiable functional programs and activities, with segregation of operating and capital programs.[1]

This section gave vast authority over the financial management of the Department of Defense to the Secretary. The wording of the law specified accounting for the cost of performance of readily identifiable functional programs and activities. Title IV created the Office of the Assistant Secretary of Defense (Comptroller) and provided for Comptrollers in each of the three military departments. Title IV further provided for uniform budget and fiscal procedures and for working capital funds through the defense department:[2]

> Section 401 . . .
>
> The Comptroller shall advise and assist the Secretary of Defense in performing such budgetary and fiscal functions as may be

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[1]U. S. Congress, National Security Act Amendments of 1949, Public Law 216, 81st Cong., 1st Sess. (1949), p. 10.

[2]Ibid., pp. 9-10.

required to carry out the powers conferred upon the Secretary of Defense by this Act, including but not limited to those specified in this subsection. Subject to the authority, direction, and control of the Secretary of Defense, the Comptroller shall—

(1) supervise and direct the preparation of the budget estimates of the Department of Defense; and

(2) establish and supervise the execution of—

(a) principles, policies, and procedures to be followed in connection with organizational and administrative matters relating to—

(i) the preparation and execution of the budgets,

(ii) fiscal, cost, operating, and capital property accounting,

(iii) progress and statistical reporting,

(iv) internal audit, and

(b) policies and procedures relating to the expenditure and collection of funds administered by the Department of Defense; and

(3) establish uniform terminologies, classifications, and procedures in all such matters.

Section 402.

(a) The Secretary of each military department, subject to the authority, direction, and control of the Secretary of Defense, shall cause budgeting, accounting, progress and statistical reporting, internal audit and administrative organization structure and management procedures relating thereto in the department of which he is the head to be organized and conducted in a manner consistent with the operations of the Office of the Comptroller of the Department of Defense.

(b) There is hereby established in each of the three military departments a Comptroller of the Army, a Comptroller of the Navy, or a Comptroller of the Air Force, as appropriate in the department concerned. There shall, in each military department, also be a Deputy Comptroller. Subject to the authority of the respective

> departmental Secretaries, the comptrollers of the military departments shall be responsible for all budgeting, accounting, progress and statistical reporting, and internal audit in their respective departments and for the administrative organization structure and managerial procedures relating thereto. The Secretaries of the military departments may in their discretion appoint either civilian or military personnel as comptroller of the military departments. . . .

Finally, Title IV laid the foundation for extension of the use of working-capital funds within the Department of Defense:[1]

> Section 405.
>
> (a) In order more effectively to control and account for the cost of programs and work performed in the Department of Defense, the Secretary of Defense is authorized to require the establishment of working-capital funds in the Department of Defense for the purpose of—
>
> (1) financing inventories of such stores, supplies, materials, and equipment as he may designate; and
>
> (2) providing working capital for such industrial-type activities, and for such commercial-type activities as provide common services within or among the departments and agencies of the Department of Defense, as he may designate. . . .

The National Security Act Amendments of 1949 were significant for the following reasons: (1) expressing congressional approval for performance budgeting; (2) establishing the comptroller function in the armed forces with assigned responsibilities; (3) prescribing the extension of working-capital funds within the Department of Defense to promote

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[1] Ibid., p. 11.

increased effectiveness and efficiency in controlling the cost of programs and work performed; and (4) downgrading the Secretaries of the military departments from executive status.

The recommendations of the First Hoover Commission and the changes required by the 1949 amendments to the National Security Act of 1947 were embodied in the Budget and Accounting Procedures Act of 1950.[1] The Department of Defense budget, however, was still oriented toward objects of expenditures. An examination of the appropriation structure bears this out. The major appropriation categories of the budget at this time were:

- Operations and Maintenance;
- Military Personnel;
- Procurement;
- Research, Development, Test, and Evaluation; and
- Military Construction.

Of these, only the fourth category, Research Development, Test, and Evaluation gave any indication of the function to be funded. During the 1950's, budgeting remained in these same appropriation categories. Congress became increasingly distressed at its inability to determine exactly where the money was going. Commenting on the 1952 Appropriation Bill, Congressman Clarence Brown of Ohio said,

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[1]P. L. 784, 81st Cong., 2nd Sess.

" . . . I speak as one of those who is not at all certain just what this Bill provides or what all the items in it mean. . . ."[1]

A second Hoover Commission in 1955 recommended a "program budget" and proposed improvements in the government accounting system leading toward a cost based budget.[2] The essence of these recommendations was that the budget should be oriented toward results rather than procurement. This type of budget would be based on performance, as recommended by the First Hoover Commission. The Commission further recommended that Government accounting be done on a cost accrual basis to show currently, completely, and clearly, all resources and liabilities, and the costs of operations. These recommendations were adopted and enacted in 1956 as Public Law 863.

In 1959, Congressman George Mahon, the Chairman of the House Defense Appropriations Subcommittee, stressed the need for considering the Defense Budget in terms of major military missions. He asked the Secretary of Defense ". . . for more useful information and for a practical means of relating cost to missions. . . ."

As if to answer Congressman Mahon, General Maxwell Taylor, Chief of Staff, United States Army, made the following suggestions while presenting the Army budget in 1960. He proposed a mission-oriented

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[1]Edward A. Kolodziej, The Uncommon Defense and Congress, 1945-1963 (Columbus: Ohio State University Press, 1966), p. 146.

[2]Smithies, p. 8.

budget in terms of six programs, and suggested horizontal cross-service review.

As mentioned in Chapter I, President Kennedy's directions to Secretary McNamara gave renewed impetus to the improvement of fiscal procedures within the Department of Defense. A procedure similar to the one suggested by General Taylor was adopted by Mr. Hitch in implementing his budgetary improvements. He integrated combinations of men, equipment, and installations into program elements whose effectiveness could be measured as a whole and compared to other choices in the range of options available for the national security. In 1965, these combinations of men, equipment, and installations were aggregated into nine programs:

I. Strategic Forces;

II. General Purpose Forces;

III. Specialized Activities;

IV. Airlift and Sealift;

V. Guard and Reserve Forces;

VI. Research and Development;

VII. Logistics;

VIII. Personnel Support; and

IX. Administration.

These programs or budget activities embrace the following areas:[1]

I. Strategic Forces. —Consists of strategic offensive, strategic defensive, and civil defense.

II. General Purpose Forces. —Consists of force oriented program elements other than those in Program (Budget Activity) I, including the command organizations associated with those forces, the logistics organizations organic to those forces and the related logistics and support units which are deployed or deployable as constituent parts of military or naval forces and field organizations.

III. Specialized Activities. —Consists of missions and activities directly related to combat forces, but not a part of any of the forces listed in Programs I and II, on which independent decisions can be made. Includes resources for primarily national or centrally directed Department of Defense objectives for intelligence and security, and specialized missions such as weather service, aerospace rescue/recovery, and oceanography.

IV. Airlift and Sealift. —Consists of airlift, sealift, and other transportation organizations. Includes command and logistic and support units organic to these organizations. Costs are net after deduction of revenue from users.

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[1]U. S. Marine Corps, Test Directive for Marine Corps Test of Project PRIME, MCSO P7000.3 (Quantico, Virginia: Headquarters, Marine Corps Schools, 1967), pp. 2-4 & 2-5.

V. Guard and Reserve Forces. —Elements are arranged by program (Strategic Forces, General Purpose Forces, Specialized Forces, Airlift and Sealift, Logistics, Personnel Support, and Administration) in order to facilitate relating guard and reserve forces to the active forces.

VI. Research and Development. —Includes all research and development activities which are not related to items which have been approved for procurement and deployment. The cost of research and development related to such items will appear in appropriate elements in other programs.

VII. Logistics. —Consists of supply and maintenance that are not organic to other program elements. Includes non-deployable supply depots and maintenance depots.

VIII. Personnel Support. —Consists of training, medical, and other activities associated with personnel, excluding training specifically identified with another program element and excluding housing, subsistence, medical, recreational, and similar costs that are organic to another program element such as base operations.

IX. Administration. —Consists of resources for the administrative support of departmental and major administrative headquarters, field commands, and administrative activities (not elsewhere accounted for), construction support activities, and miscellaneous activities not accounted for elsewhere.

The basic program structure was reorganized as shown in order to clearly distinguish at the major program level between (1) activities directly related to defense posture, on which independent decisions can be made, and (2) activities whose size and resources are essentially dependent on the size and position of the independent activities. Programs I through VI are considered to be independent or force-oriented programs. Programs VII, VIII, and IX are considered dependent programs. The majority of the decisions in Program VI, Research and Development, will also be made in relation to the force-oriented programs.[1]

These major programs have been further subdivided into program elements, which are the major building blocks of the programs. A program element is both a description of a program to be undertaken and a device for collecting costs. Program elements are classified into two types, (1) Mission and (2) Service. Mission program elements are charged with the cost of services which are relatable and measurable and obtained from service units, in addition to the costs routinely and directly chargeable to the mission. Service programs elements reflect only those costs which are not charged to mission elements as paying customers.[2] There are approximately 1100 program elements. Now, for the first time, definitions for each have been prepared.

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[1]Department of Defense, Primer on Project PRIME, p. 30.

[2]Ibid., p. 31.

With these changes, managers are able to participate more fully in programming decisions because they have a ready measure of both inputs and outputs. The operating manager's experience can now be better incorporated into the programming process.[1] This will undoubtedly lead to better decisions since the decisions will be based on a fuller appreciation of all the factors involved.

With this extensive background for change and the advent of Secretary McNamara's quantitative approach to the conduct of business in the Department of Defense, preparations were made to launch into Project PRIME at the earliest possible date.

On June 9, 1967, the House Committee on appropriations issued its "too much too soon" statement and doomed the full scale implementation of PRIME, at least for fiscal year 1968.[2] The Committee directed that no change be made in the Department of Defense budgeting and accounting system preparatory to the formulation of the fiscal year 1969 budget presentation and deleted certain necessary funds.

The report of the Committee, however, stated that there was no objection to further testing of PRIME by each service at a selected activity. The Assistant Secretary of Defense (Comptroller) directed that each service plan and execute a demonstration test during Fiscal

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[1] Ibid., p. 36.

[2] Congress, Department of Defense Appropriations Bill, 1968, p. 6.

Year 1968. The Army is conducting a test at Fort Carson, Colorado; the Air Force test is underway at Laughlin Air Force Base, Texas; the Navy is testing units of the Naval Air Training Command, Pensacola, Florida; while the Marine Corps selected the Marine Corps Schools at Quantico, Virginia. Since the work on this paper began the official designation of Marine Corps Schools has been changed to Marine Corps Education and Development Command. The installation itself is now called Marine Corps Base, Quantico, Virginia. These names will be used throughout this paper to describe the command and the facility.

ALMOST COMPLETELY INACCURATE

CHAPTER III

FIELD SERVICE TEST OF PROJECT PRIME

The Marine Corps test of Project PRIME began October 1, 1967 and is designed to cover Fiscal Year 1968. The choice of the Marine Corps Development and Educational Command located at Marine Corps Base, Quantico, Virginia, as the test site was a logical one. The Base houses a sufficiently broad variety of activities, which enabled testing to proceed in several areas. Its location near Marine Corps Headquarters, Washington, D. C. facilitated liaison and communications. Personnel from Headquarters, Marine Corps were assigned to Quantico for temporary additional duty to assist with the testing procedures.

The Assistant Chief of Staff, Comptroller, Marine Corps Base was designated as the Test Manager. The test is being conducted under the normal staff and command structure with minimum augmentation rather than through use of a special task force. This method is considered to have more validity since the test is being conducted by the same offices and staff sections which will have ultimate responsibility when PRIME is implemented. The use of operating staff sections during the test will undoubtedly increase and facilitate the transition if and when PRIME is established throughout the Marine Corps.

The directive implementing the test of Project PRIME at the Marine Corps Development and Educational Command, Quantico gave the following as test objectives:[1]

1. to evaluate the practicality of merging resources currently in the operations and military personnel appropriations;
2. to evaluate the parallel structuring of programming, budgeting, accounting, and reporting systems;
3. to analyze the ability of the system to provide managers at all levels at the test site and higher echelons with information that will help them insure resources are obtained and effectively and efficiently utilized in the accomplishment of the test mission and higher echelon objectives;
4. to ascertain that the system provides a means of assuring that statute agreements with Congressional committees and other requirements emanating from higher authority relating to resources are complied with;
5. to evaluate the cost of implementing the system at the test site in relation to the benefits realized; and
6. to assess the impact of test results in relation to Marine Corps-wide adoption of the Resource Management Systems concept;
7. to identify and recommend improvements or modifications to the concept or the systems of the test.

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[1]U. S. Marine Corps, Test Directive, p. 1.

Under the procedures in effect prior to October 2, 1967, financial management of Marine Corps Base, Quantico was restricted primarily to those materials and services that resulted in an expenditure of appropriated funds that were allotted. Very little attention was paid to other costs, such as military services, Appropriations Stores Account material, or material or services chargeable to open allotments. Since there were no direct charges for these items they were considered as free resources. Because of this situation, commanders were exercising control over actually only a small percentage of the costs of operations. The test of Project PRIME is designed to correct this situation by providing the commander with a budget which includes all costs, instead of an allotment or group of allotments to cover only the limited cost indicated above. When the financing of an organization or activity is related to the total cost of the task or mission assigned, more responsive data can be accumulated. Costs are then recognized and recorded against the budget at the time they occur instead of when they are ordered; or, in the case of those which require payment—when they are paid. A budget such as this, covering so many more resources, theoretically will increase a commander's flexibility, enabling him to shift resources to meet changing demands.[1]

Prior to proceeding with the discussion it is necessary to include certain definitions.

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[1]U. S. Marine Corps, Test Directive, p. 1-3.

[2]Ibid., 1-15.

1. Accrual Accounting — a method of accounting whereby:
   a. operating costs are accounted for in the fiscal period during which the benefits are received (cost of resources consumed or applied);
   b. costs having benefits applicable to future periods are deferred and considered as assets;
   c. liabilities for unpaid costs are recorded in the accounts when goods or services are received; and
   d. income for worker services performed on a reimbursable order is recorded in the accounts when reimbursable expenses are incurred.
2. Cost Centers — a subdivision of a responsibility center. Each cost center is an organizational entity for which identification of costs is desired and which is amenable to cost control through one responsible commander. The first subdivision of a cost center is a sub-cost center. A sub-cost center is normally an organizational entity for which identification of costs is desired and which is amenable to cost control through one responsible military or civilian supervisor. Marine Corps Base, Quantico has three cost centers: Marine Corps Development Center, Marine Corps Educational Center, and Base Support Activities.
3. Cost Transfer — the statistical transfer of the cost of resources from one responsibility center to another. These

resources include military personnel services and Appropriations Stores Account material costs related to reimbursable work.

4. Expenses — the cost of: civilian personnel services; military personnel services; supplies and material consumed or applied (includes statistical Appropriations Stores Account material); travel and transportation of personnel; rental of facilities and equipment; equipment (having a unit value of less than $1,000); services received (purchased utilities, leased communications, printing and reproduction, and other); and cost transfer from other responsibility centers (military personnel services and Appropriations Stores Account material issues). The cost of minor construction having a value of $25,000 or less is included as an expense.

5. Expense Operating Budget — the annual budget of the Marine Corps Base which contains estimates of the total value of all resources required for performance of the mission, including work or services for others on a reimbursable basis. It also includes a quantitative expression of workload in terms of total number of work units by cost and sub-cost centers.

6. Resources — consist of military and civilian personnel, material on hand and on order, and the entitlement to procure or use material, utilities, and services; all as required or

performance of the basic mission of the responsibility center and work performed for others.

7. Responsibility Center — as defined by the Department of Defense is "an organizational unit headed by an officer or supervisor who is responsible for the management of resources in the unit, and who in most instances can significantly influence the expenses incurred in the unit." The Marine Corps Development and Education Command is a responsibility center.

8. Work Unit — A unit of measurement, such as documents processed, tonnage moved, students trained, or gallons processed, used to provide quantitative information concerning the physical output applicable to a subdivision in the expense operating budget.

For the test of Project PRIME, the Marine Corps Base receives one expense operating budget in lieu of the usual allotments under the appropriation entitled Operation and Maintenance, Marine Corps.

The single expense operating budget received by the Commanding General, Marine Corps Base is subdivided into individual expense operating budgets and distributed to planning estimate administrators. The monetary portion of the expense operating budget is based on the total accrued expenses — resources applied or consumed — regardless of whether or not such costs are now included in operating allotments. These accrued expenses include civilian personnel pay, military personnel

services charged at a standard rate, all material consumed, services rendered, rental charges, and military service expense transfers from other responsibility centers.

Under the test, the primary means of management and financial control at each organizational level are the expense operating budget planning estimates and performance reports. These performance reports include financial data and non-financial (work unit) output measures. They will compare actual output and expenses with those planned and will direct attention to significant differences and the reasons therefore. In other than the military services area, savings achieved through effective management in one cost center or sub-cost center may be applied to other so-called cost centers or sub-cost centers within the expense operating budget provided they are kept within certain category transfer limitations.

Prior year items and services obligated under funding authorities outlined above which are ordered in Fiscal Year 1966 and Fiscal Year 1967, and will be received and consumed in Fiscal Year 1968, will also be charged against the Fiscal Year 1968 expense operating budget.[1]

Changes

Certain changes in procedures were necessary in order to implement Project PRIME. Several of these changes are general in

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[1] Ibid.

nature and will be described in the paragraphs immediately following. Others were of a more particular nature, and took place in the areas of accounting, supply, and data processing. They will be discussed in the latter part of this chapter. In addition to the foregoing, the methods and procedures involved in the test reporting will also receive consideration in this chapter.

The first of the general changes involved a restructuring of the budget accounts structure to conform with the data structure in effect in the Five Year Defense Program. The structure within this program consists of a descending order of aggregation: program, program element, functional category, and element of expense. To these the Secretary of the Navy has added sub-functional and cost accounts as uniform data. Uniform cost accounts have been added to these by the Commandant of the Marine Corps. The Commandant, Marine Corps Base has further designated uniform cost centers, sub-cost centers, and unit cost centers as well as mission codes and labor class codes. These actions have culminated in the establishment of a uniform data system in descending order: programs, program elements, functions, sub-functions, elements of expense, cost account, mission code, and labor class codes — all related to cost centers, sub-cost centers, and unit cost centers.[1]

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[1] Ibid., p. 2-3.

Of the nine major functional areas[1] within the Five Year Defense Program framework, only two were designated for test at Marine Corps Base, Quantico, Virginia. These two programs are Program V, Guard and Reserve Forces, and Program VIII, Personnel Support. Program V has one program element, Base Operations, while Program VIII has three: Specialized Training, Professional Training, and Training, Other.

Subordinate to the program elements are functional categories and sub-functional categories. Functional categories are designed to collect expense information for one or more of the following reasons:[2]

1. Information on the cost of the function is required to meet restrictions made by the Congress or to meet the needs of outside parties.

2. Information on the cost of a function is useful in deciding on the authorization to be provided to an operating activity.

3. The cost of the function provides a control total tied to an underlying cost accounting system needed for management of the function.

4. The cost of the function is useful in making comparisons and special analyses of costs.

These functional account categories, which were developed in response to the requirements of the Office of the Secretary of Defense, did not fulfill all of the Marine Corps requirements for management information. Additional accounts called sub-functional categories were

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[1] Supra, pp. 25-27.

[2] U. S. Marine Corps, Test Directive, p. 2-6.

therefore developed to supplement the functional categories. These divisions into functional and sub-functional categories are far too numerous and finite to be discussed in detail here and their examination is outside the intended scope of this paper. In order to illustrate the manner in which these divisions are made, a single example of a functional category, Base Services, and its related sub-functional categories will be presented:[1]

> Base Services
>
> Definition. Includes expenses for miscellaneous base support functions (other than Public Works functions) not otherwise included in other functional categories. Typical of such expenses are those incurred by the Communications, Security, Fire, Operations/Air Operations, Weapons and Port Control/Water Front. Includes the cost of the foregoing services when performed by contract and the expenses incurred by the organizations performing the foregoing functions, including organic support thereof. Excludes the expenses of organic service functions or organizations identified with other functional categories and expenses of maintenance or related real property facilities. Includes rental of real property facilities when not otherwise identifiable to other functional categories.

Within this functional area the following sub-functional categories are grouped.[2]

> Base Services, General. Includes expenses for such other base services as meet the criteria for the base service functional category and are

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[1] Ibid., p. 2-9.

[2] Ibid., p. 2-10.

not specifically covered by one of the succeeding special service sub-functional categories.

Training, General. Includes expenses specifically identified and measurable to the training function which do not fall within the sub-functional categories of training, specialized and training, professional.

Marine Corps Laundry and Dry Cleaning Plants. Includes expenses specifically identified and measurable to the operation of laundries and dry cleaning plants, supply department only.

Marine Corps Base Motor Transport Operations. Includes expenses specifically identified and measurable to the operation of shops and motor pool functions at Motor Transport Section only.

Reimbursable Costs.

Under the test, all functional categories are divided into one or more sub-functional categories in much the same manner and detail as illustrated above.

Essential to the proper operation of Project PRIME is the use of expense elements. Each expense identified to a functional category, sub-functional category, cost center, and sub-cost center will also be identified to a specific expense element. These elements are varied and all-inclusive. The twenty-two expense elements used for external reporting are:

1. Military Personnel
2. Statistical Charges
3. Travel of Personnel
4. Transportation of Things - Military Airlift Command
5. Transportation of Things - Commercial Air

6. Transportation of Things - Military Sea Transportation Service
7. Transportation of Things - Inland Transportation
8. Transportation of Things - Quicktrans
9. Transportation of Things - Other
10. Utilities
11. Communications
12. Purchased Services - Overhauls
13. Purchased Services - Other
14. Aircraft Fuel Oil and Lubricant
15. Ship Fuel Oil and Lubricant
16. Supplies
17. Civilian Personnel
18. Equipment
19. Other Expense
20. Printing and Reproduction
21. Service Transfer
22. Investment Items

It is apparent from the preceding list that subdivision of expense elements is extremely detailed and explicit. Such detail of expense elements combined with the functional and sub-functional account categories provides clear audit trails and the capability of assigning cost down to the lowest level practical. For the purposes of this discussion, all the preceding expense elements are sufficiently self-explanatory with

the exception of element number 21, Service Transfer. The implementing instructions define service transfers in the following manner:

> Service Transfer. This element of expense will be used to accumulate the credits for charges made to functional categories or program elements of cost/sub-cost centers within Marine Corps Schools. These credits decrease the expense for the functional category or program element of a cost/sub-cost center which earned the credit expense, and they are to be contrasted with reimbursable transactions which do not decrease the expense for the functional category or program element of the cost/sub-cost center under which the expenses are accumulated. The purpose of this element is (1) to avoid the transfer of expenses by individual element of expense and (2) to provide visibility for both gross expenses incurred and net expenses of functional categories by cost/sub-cost centers. This expense element will also be used to identify transfer of allocated reimbursable costs. [1]

Cost accounts were established to classify transactions according to purpose. These cost accounts are used for the uniform identification of the contents of management reports. They are used in conjunction with appropriate functional and sub-functional categories. [2] For management purposes, aggregations of operating costs are classified in terms of organizational entities, that is, squadrons, groups, battalions, whereas aggregations of investments (procurement and construction)

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[1] Ibid., p. 2-10.

[2] Ibid., p. 2-15.

costs are listed in terms of the item or classes of items being procured. Operating costs are, by definition, measurable costs. These include the cost of labor, material, and services consumed in or received by the element. The operating expenses in an element, therefore, are those that can be charged directly to the element, through the accounting system.

The purpose of this uniform structure is to provide a common basis by which to judge the relative merits of the various programs and program elements. At the Department of Defense level, far above the consideration here, this uniform structure will permit comparison or cost benefit analysis of the cost of performing similar functions and activities within and between the military departments and defense agencies where the activities themselves are comparable.[1]

Expense Operating Budgets

Under the procedures used in the PRIME test budget, formulation and execution remain substantially the same as in previous years. In construction of an expense operating budget three major steps must be considered:[2]

1. Structuring the planning input into labor hours, material requirements, overhead applications and work or services

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[1] U. S. Industrial College of the Armed Forces, Defense Resource Management Systems: Project PRIME, (Washington, D. C., 1967), pp. 36-37.

[2] U. S. Marine Corps. Test Directive. p. 3-3.

to be performed by other responsibility centers or by contract.

2. Applying realistic dollar estimates or standard costs to the preceding.

3. Totaling the amounts derived by the preceding procedures.

Only certain expenses may be included in the expense operating budgets approved under operation and maintenance appropriations. These particular expenses are: civilian labor, military services applied, material consumed or applied, services received, rental of facilities and equipment, and cost transfers from other responsibility centers. Included as expenses are end items of equipment having a unit value of less than $1,000 as well as costs of minor construction totaling $25,000 or less. None of the items mentioned above are considered expenses when they are incurred in the production or construction of investment items.

The cost of investment items are usually those associated with the acquisition of equipment and real property.

The following are considered to be investment costs:[1]

1. Major end items of equipment. Items of such importance that they are subject to continual centralized, individual item management and asset control throughout all command and support echelons, and throughout their active life, from acquisition through use until wear-out and disposal. These

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[1] Ibid., p. 3-6.

items are usually long-lived, of high unit value, repairable, and subject to continuous inventory control.

2. Other end items of equipment. All other end items of military or commercial type, having an acquisition cost of over $1,000.

3. Repairable assemblies, spares, and repair parts. Items which are centrally managed and recoverable.

4. Construction. Includes the cost of land and rights therein, excluding leasehold. Construction is defined as the erection, installation, or assembly of a new facility; the addition, expansion, alteration, conversion or replacement of an existing facility; the acquisition of a facility, or the relocation of a facility from one installation to another. This definition includes equipment installed and made part of such facilities and all related site preparation.

5. Munitions and their components.

There are certain conditions, such as initial outfitting and modifications, under which the foregoing distinction between expenses and investment costs are, to a degree, modified. These circumstances are not germane to this discussion of the distinctions and will not be discussed here.

Properly and thoroughly constructed expense operating budgets—as propounded in Project PRIME—are an important aspect of the overall management system. A system of management by exception must be instituted in order to signal, on a timely basis, significant variations in

actual cost versus planned cost. These reporting procedures should also reveal the reasons for the variance. Through a well-constructed expense operating budget and responsive reporting system the manager will be able to discover and correct problems in his operations prior to the time that the problems become insurmountable.

Accounting

The primary source of data for financial planning and financial control of operations under Project PRIME is a system of accrual cost accounting by cost center with expense classifications set up as appropriate. This system provides accounts, records, and procedures for recording transactions and is designed to include accounting controls. These accounts and records are designed to provide financial and cost information to all levels of management from planning estimate administrators to the Bureau of the Budget.

This system has the following features:

- double entry method;
- accrual basis;
- internal control over all transactions; and,
- integration of cost accounting records with the general books of account.

Within this system the principal areas of financial control are:[1]

- Management controls which provide for effective use of all resources (input) in relation to mission (output).

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[1]Interview with Major William Geuty, Accounting Officer, Marine Corps Base, Quantico, Va., April 12, 1968.

- Cost control procedures which insure that costs incurred are related to work authorized.
- Accounting controls, consisting of administrative procedures employed to maintain and prove the accuracy and propriety of transactions and the related accounting records.
- Budgeting controls, consisting of the establishment of a financial plan (approved expense operating budget), the accumulation of data on the same basis as the expense operating budget, and the taking of necessary action to keep operations in line with the expense operating budget objectives.[1]

Obviously the effective application of an accounting system of the complexity indicated above requires a carefully planned organizational structure, clear delegation of responsibilities, well defined operating policies and procedures, competent personnel, and a strong internal audit system. Such a system includes the reporting of actual input and actual output and any variances from the standard. This information will be used by the military manager at all levels to assure that all resources consumed are used effectively and efficiently in accomplishing their mission.[2]

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[1] U. S. Marine Corps. Test Directive, p. 4-3.

[2] Ibid., p. 4-4.

In the past the primary focus of accounting for operations in the Department of Defense had been on accounting for the source, application, and status of appropriated funds. Accounting for the source of appropriated funds discloses the origin of the funds. It discloses whether the funds were derived by Congressional enactment, by reimbursement for goods or services furnished by others, by transfer from other appropriations, or from any of the other possible sources. Accounting for the status of appropriated funds is oriented toward assisting managers in avoiding the legal entanglements of spending more than they are authorized. These procedures focus on the amount of the funds allotted, comparing them with funds budgeted. Within the formal system of accounting there is virtually no attempt to account for the resources actually used or to relate the cost of these resources to the work done. Within the Department of Defense there are many systems bearing the title "cost accounting," but they are rarely tied in with the basic appropriation accounting system. There is, therefore, no ready measure of the validity of the data produced by these systems.

Because of the limitations indicated above the existing systems permit only an estimate of the total cost of a program or an organization. There is no clear cut relation between inputs and outputs. For example, the budget structures under the Military Personnel appropriations relate two types of pay—enlisted pay, retired pay, hostile fire pay, travel, and other types—rather than to the program categories for which these types of pay are used to provide military services. To further complicate

accounting procedures both the Military Personnel appropriation, and the Operation and Maintenance appropriation still contain investment costs mixed with the expense items which predominate.[1]

Commensurate with the basic change to expense accounting and its purpose of charging measurable expenses to programs and organizations when they are incurred, four other changes in accounting procedures are being made:[2]

> 1. Cost of military personnel will now be charged to the program and units where the personnel work.
>
> 2. Appropriations are being purified so that only expense items are associated with the operating appropriations, and only investment items with the Procurement and Military Construction appropriations.
>
> 3. Working capital funds, which hold assets in suspense from the time they are ordered until they are received by the final user, are being extended, so that operating expense accounts reflect only the expense of the items consumed, and not the cost of items acquired but not yet consumed. Working capital accounts are being established for locally procured contractual services.
>
> 4. A uniform expense account structure is being prescribed so that accounting information is collected in ways that are useful to the operating manager and also are consistent with the information needed for programming and budgeting.

Under Project PRIME the cost attributable to military personnel will be charged to the unit wherein they work. Such charge is to be

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[1]Industrial College of the Armed Forces, Defense Resource Management, pp. 31-32.

[2]U. S. Department of Defense, A Primer on Project PRIME, pp. 50-51.

applied at a standard rate, using a single cost for each grade. The cost of military personnel will be charged against the program, project, and function in accordance with actual performance of duties and responsibilities using methods similar to those employed for recording costs of civilian employee services. Until now this most important single element of cost has neither been budgeted for nor accounted for. Under Project PRIME, users are required to budget and account for these resources.

The two overriding requirements of the new procedures are the following:[1]

> 1. All services provided by military personnel to mission/organization must be budgeted for, and will be charged to the unit.
>
> 2. All military personnel (with very few exceptions) must be charged to a program, project, and/or function in accordance with actual performances of duties. In other words, military personnel will no longer be "free" to users, and all military personnel will be used at all times, in the sense that their costs will be charged to an operating activity.
>
> An exception will be made for military personnel assigned to combat units. For these personnel, each service will be required merely to accumulate total standard costs in aggregates by organizational units.

Purification of Appropriation Accounts

In order to accomplish effective accounting a clear division between expense (current consumption) items and investment (long-lived capital)

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[1]Industrial College of the Armed Forces, Defense Resource Management, p. 32.

items is required. For most items, this separation is clearly reflected in the appropriations structure. Certain expense items, however, are presently budgeted for and accounted for in procurement accounts, while the Operations and Maintenance appropriations contain some investment items. The criteria for determining whether an item is an investment or an expense is set forth in a Department of Defense Instruction on Definitions of Expense and Investment Costs. This instruction will insure consistency and allow appropriate management of these two different types of expenditures.

In general an expense may be considered an item which contributes to the current support of an activity. Included are labor costs both military and civilian, materials consumed in use, and services received by an activity which relate to its current operations. Costs which give rise to long-lived assets from which benefits accrue over a long period of time are considered investment costs. These costs are usually associated with the acquisition of equipment and real property.[1]

Working Capital

Working capital accounts facilitate better management by permitting the matching of resources consumed to work done. Working capital accounts hold in suspense the cost of materials purchased until the material is issued. In consideration of working capital accounts two ideas are important. The first idea is that the focus in the management of

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[1] For a more detailed discussion of expenses and investment costs see supra. pp. 38 and 48.

operating resources should be on the job, the cost and the person responsible for doing the job and incurring the cost. Secondly, there is very often a difference in time, place, and personnel responsibility between the purchase of a resource and its consumption. The suspension of the costs in a working capital account until such time as the item is issued or consumed allows resources consumed to be matched with work accomplished.[1]

Within the Department of Defense two types of working capital accounts are used. They are:

1. Stock Funds - used to hold the cost of materials in suspense until issued or consumed.
2. Industrial Funds - used to hold in suspense the cost of manufactured items and services.

Stock funds are associated with the supply system, while industrial funds are typically associated with shipyards, repair facilities or other industrial type operations.[2]

The following illustration of the operation of these funds was given in "A Primer on Project PRIME."[3]

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[1] U. S. Department of Defense, A Primer on Project PRIME, p. 56.

[2] Industrial College of the Armed Forces, Defense Resource Management, p. 36.

[3] U. S. Department of Defense, A Primer on Project PRIME, pp. 56-57.

> . . . consider the example of a supply item which is purchased by the Defense Supply Agency in Fiscal Year 1966 and consumed on the U.S.S. John F. Kennedy in Fiscal Year 1967. A manager in the Defense Supply Agency is responsible for the procurement; a manager on the U.S.S. John F. Kennedy is responsible for consumption; and other managers are responsible for seeing to it that adequate, but not excess, inventories of the item are on hand in the supply system.
>
> The vendor must be paid for the item when it is bought, and the working capital stock fund permits this to be done and the cost then held in suspense so that it can be charged to the final user only when the item is consumed. Without working capital, the cost would have to be charged to some account at the time and place of acquisition even though the final user might well not be known then. The significance of this is summed up in the terms [sic] "free assets," which is how a manager often describes costs that are charged elsewhere and paid for from some appropriation or allotment or source for which he is not responsible. . . . With the extended use of working capital devices the availability of free assets can be decreased and the proportion of unfunded costs diminished.

It is the intention of the Department of Defense to expand the use of working capital funds in the coming years. The major points of this expansion are as follows:[1]

> 1. Inventories of material that will become expense upon issue for use will be carried in stock funds from the time of acquisition until the time of issue. . . . Stock funds are not intended to be extended to inventories in the hands of combat forces.

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[1]Industrial College of the Armed Forces, Defense Resource Management, pp. 36-37.

2. Major service and manufacturing units will operate under industrial funds. Some activities not presently included in industrial funds will be included.

3. Service units, such as motor pools and base maintenance units, that are an integral part of a base/installation organization will be included in the base/installation operating budget and accounting system under working capital accounts.

4. "Unfilled orders" and "prepaid services" are elements of working capital.

There are no new concepts here. The extension of working capital funds merely facilitates control at the point of consumption.

Supply

Although certain changes in bookkeeping procedures have been necessitated by PRIME, a sweeping revamping of Marine Corps Supply procedures is not in the offing. The major change, that of purifying the appropriations, is not as large a task as it would seem. During an interview late in December, 1966, Mr. Anthony J. Varano, Assistant Director Stock Fund Branch, Supply Department, Headquarters, Marine Corps, indicated that about ninety-five percent of the expense type items were already in the MarineCorps stock fund.[1] The Marine Corps Stock Fund is a revolving fund for which operating capital was initially established from funds appropriated by the Congress. The capitalization of existing inventories of items was taken into the Stock Fund at the time

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[1]Lt Col William J. Beer, "Impact of Project PRIME on the Fleet Marine Force Ground Commander." (Unpublished Master's Thesis, School of Business Administration, George Washington University, 1967), p. 64.

it was established in 1955. Since that time items in the Stock Fund have not been "free" to users; rather, they are sold at prices which include the following elements of cost:[1]

1. Current market or production cost.
2. Transportation cost from manufacturer to first point of designation within the Stock Fund distribution system.
3. A charge calculated to reimburse the Stock Fund for all foreseeable net losses and authorized expenses connected with stocking the item.

Since users have been purchasing from the Stock Fund since 1955, it is doubtful that any major changes in procedures will be necessary.

Data Processing

There have been changes in the data processing office since the advent of Project PRIME. These changes are due to the increased number of reports or to the changes in format of some of the reports previously prepared. Two completely new reports are the Military Labor Report and the Service Unit Transfers Report. The machine time for both these reports is negligible. They have, however, increased the work load of the keypunch operators. The data processing facility uses both an IBM 360 and an IBM 1401; at the present time the work for Project PRIME is being run on the 1401. Except for the increase in

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[1] Ibid., pp. 47 and 48.

keypunch time the additional work load caused by PRIME has not adversely affected the data processing installation at Marine Corps Base, Quantico.[1]

Test Reporting

Following are the monthly external reports required by Project PRIME.[2]

1. Expense Operating Budget Summary and Detail. —Reflects expenses at the program and program element level and contains total expenses, less reimbursable and statistical expenses. Expenses are spread by military services, military services transferred from other responsibility centers, civilian labor, material, other, and total expenses.
2. Expense Operating Budget Financial Report. —Is the sole source of data for posting to the appropriation ledgers maintained by the Accounting Branch, Fiscal Division of the Headquarters. The report contains five separate sections and is a comparison of the prior month's trial balance and general ledger with the current month's trial balance and general ledger. It shows the amount of change in each account and contains information concerning reimbursable transactions and real property maintenance.

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[1]Interviews with Captain Kay Croll, Data Processing Officer, DPI-7, Marine Corps Base, Quantico, Va., January 5, 1968; April 12, 1968.

[2]Interviews with Mr. Roy Freme, Systems Accountant, Barracks and Marine Corps Districts, Procedures Section, Fiscal Division, Headquarters, Marine Corps, Washington, D. C., December 21, 1967; April 12, 1968.

3. Functional Category/Expense Element Report. —Reflects accrued expenses by Expense Element within each Functional Category.

4. Reconciliation of Expenses Report. —Is comprised of two sections which are submitted concurrently with the monthly Expense Operating Budget Financial Report. The first section, the General Ledger Accounts Section, reflects the monthly changes to these accounts while the second section entitled, Recapitulation of Expense Operating Budget Financial Report Section, reflects the changes from the Functional Category/Expense Element Report.

5. Performance Statement Report. —Compares the actual fiscal year to date totals for work units and accrued expenses to the approved fiscal year to date budget for each cost account within the Responsibility Center. A percent to budget and a norm percentage are computed monthly for both work units and expenses for each cost account which requires monthly budgeting. This report is an exceptionally good management tool since it provides managers with a listing of actual expenses compared with budgeted expenses both in dollar figures and in percentage form. These figures are given for each cost account and a total is computed for all cost accounts within a Responsibility Center. This report is available to local managers.

6. Operations, Cost, and Performance Report. —Reflects the actual expenses incurred for the monthly period by program, program element, function, sub-function, expense element, and cost account. Work units and man hours are reported at the cost account level.

Individual Units

In order to further examine the effects of the test of Project PRIME on the test units, two were selected for individual study. They were chosen with the hope that they would be sufficiently separated on the general spectrum of activities to provide as comprehensive an example of PRIME's effects as possible.

One of the units chosen was the Motor Transport Company of Service Battalion, Marine Corps Base, Quantico; the other was the S-4 Section, The Basic School, Quantico.

The mission of the Motor Transport Company is to supply motor transportation on a request basis to all units at Marine Corps Base, Quantico.

The S-4 Section has the mission of providing supply support to the Basic School, which itself, has the mission of training newly commissioned Second Lieutenants.

The Motor Transport Company was selected primarily because its operations should have become adapted to the concepts and procedures of Project PRIME to the fullest extent. Indeed the operations of a

mythical motor pool are used by many of PRIME's most ardent proponents to illustrate the system functioning at its optimum. The following story in one form or another is frequently used.

The base commander has an efficient but limited motor pool, from which he hopes to service all the units on the base. In order to do so he has devised a set of rules specifying the circumstances under which subordinate managers may obtain services from the motor pool. These rules are interpreted and enforced by the motor pool manager who, in effect, decides the relative priorities of the line manager's requests for transportation.

At certain times there are more requests for trucks and other vehicles than can be filled by the motor pool. Whether or not a particular line manager gets the vehicle he requests is the decision of the motor pool manager. The line manager has no recourse from these decisions other than to appeal the decision to higher authority.

At the same time, because the line manager pays nothing for the use of the vehicle he may, in fact, request transportation when he has only slight need for it. Under certain circumstances he may request a truck when a sedan will do. Since the line manager's costs are not affected by his decision whether or not to use a vehicle, he is not motivated to consider whether the truck is necessary or not. Under the procedures set up by PRIME, so the story goes, the manager will look more critically at the use of a vehicle because he will be charged for its use and such expenditure will diminish the total amount of resources with which he has to work.

It is as if the commanding officer had removed the rules governing the use of vehicles and said to the line managers: "If you think the cost of the use of this truck is worth-while to your operations you may have it. The decision is solely yours and should be made in the light of the other resources your have available." The illustration further indicates that the line manager might even go so far as to hire outside transportation should the base commander permit him to do so and should he believe it is able to do the job for less cost.

These usage charges, it is claimed, would cause the line managers to think about all of the resources used since they would be charged for each and every item and for all services which are used in accomplishing the mission assigned.

In actual practice the system at the Motor Transport Company worked exactly as the illustration given above. It succeeded to the degree expected by its most optimistic proponents. Of course, there are some minor difficulties in the system. None seem so large individually, nor so overwhelming in the aggregate, however, as to cause major difficulties.

As soon as the Motor Transport Company began to charge for their services the commanders immediately reduced the number of requests for transportation. Shortly thereafter, many began to ask for information regarding the prices charged for the use of a particular type of vehicle. Next, the drivers' salaries became the subject of inquiry and action. Requesting units began to use their own personnel as drivers rather than

bear the cost of a driver from Motor Transport Company. Within a very short time the commanders had become acutely aware of the costs of transportation, a service which for years they had received for the asking with no regard to cost. [1]

One of the difficulties with the procedures as carried out in the Motor Transport Company is the vastly increased paper work necessary to support the system. In order to accurately charge the using units for vehicle and driver use, several different rate schedules had to be worked out. Charges differ for the type of vehicle and grade of driver. So cost conscious have the requesting units become that they attempt to get drivers of lower grades in order to keep down the cost. [2]

The detailed cost breakdowns indicated previously have caused an increase in the number of men employed to handle the administrative aspects of this section of the Motor Transport Company's operations from one to seven. [3] It should also be mentioned that because of the increased complexity of the bookkeeping procedures either an increase in the grade level or the educational level of the personnel employed will most likely be necessary.

The additional six men have been provided from personnel who have been dropped from the Officer Candidate School program. All of

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[1] Interview with Captain Kelbaugh, Assistant Operations Officer, Motor Transport Company, Marine Corps Base, Quantico, Va., April 12, 1968.

[2] Ibid.

[3] Ibid.

these personnel are college graduates and most of them have degrees in business. While the work which they perform is not directly related to their advanced education, the education has enabled them to comprehend the procedures quickly and to perform at the level of highly trained clerks within a few days. Officer Candidate School "drops" have been used in other offices at Quantico to assist with Project PRIME. Quantico, alone, among the post and stations of the Marine Corps, has such a ready pool of highly educated personnel available. At other locations in the Marine Corps, these duties must be performed by the enlisted Marines already assigned. Their ability to institute and operate the accounting and record keeping procedures needed for PRIME will be somewhat lower than the ability of the personnel now working at Quantico. On the encouraging side, however, is the fact that as the test proceeds, better systems and procedures are developed to cope with the increased load.

The S-4 section of the Basic School had adopted the procedures required by the Project PRIME test with little trouble. The results with respect to reduced requests for support have not been nearly as dramatic as those at the Motor Transport Company. This is most probably due to the fact that the demands of the Basic School allow less latitude for change, and are therefore less elastic. The new procedures required for the PRIME test require work unit data and military personnel costs to be reported. In order to provide this information, additional records must be kept.

The additional local reports required by this phase of the test are prepared by the regular clerical personnel. Other changes within the Supply/Fiscal section are minor and, with a further period of shaking down, should be of no consequence.[1]

Both the Motor Transport Company and the S-4 have made the transition to the Project PRIME procedures with little difficulty. In each case the new procedures have brought about an increased cost consciousness and will, with time, achieve some of the savings for which the system was designed. Of particular value to each of the units is the Performance Statement Report. This report enables each recipient to evaluate his unit's actual performance and to compare it with planned performance. In both units increased clerical work resulted from the requirements of the test. It can be expected that as the personnel gain experience and skill the amount of time required for record keeping and for preparing the new reports will decrease. In some areas, there is a point beyond which training and experience will no longer reduce the clerical time required. It is inevitable that increases in clerical personnel will be required.

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[1]Interview with Major Glenn Bratcher, Supply/Fiscal Officer, The Basic School, Marine Corps Base, Quantico, Va., April 12, 1968.

CHAPTER IV

SUMMARY AND CONCLUSIONS

Despite the fact that many people are reacting to PRIME as though it were an unprecendented change in Department of Defense management procedures, it is really but the next logical step in a continual evolutionary process. It is a large step, to be sure, and more sweeping in scope and concept than the changes which have gone before, but nevertheless it is evolutionary and not revolutionary in nature.

Action directed toward achieving the same ends as those envisioned in Project PRIME was recommended by the Second Hoover Commission in the mid-nineteen fifties and enacted into law by Public Law 84-863, which was approved on August 1, 1956. Section 2 of that Act directs:[1]

> (a) The head of each executive agency shall . . . take what ever action may be necessary to achieve . . .
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> (1) consistency in accounting and budget classification,
>
> (2) synchronization between accounting and budget classifications and organizational structure, and
>
> (3) support of the budget justifications by information on performance and

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[1] U. S. Congress, An Act to Improve Governmental Budgeting and Accounting Methods and Procedures, Public Law 863, 84th Cong., 2nd Sess., 1956, p. 1.

> and program costs by organizational units.
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> . . . . . .
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> (c) As soon as practicable after the date of enactment of this sub-section, the head of each executive agency shall, in accordance with principles and standards prescribed by the Comptroller General, cause the accounts of such agency to be maintained on an accrual basis to show the resources, liabilities, and costs of operations of such agency with a view to facilitating the preparation of cost-based budgets. . . .

Action toward achieving the improvements directed by Public Law 863 moved slowly for the next decade. President Johnson's memorandum of May 24, 1966 gave renewed impetus to the current efforts to improve budgeting, accounting, and appropriation procedures within the Federal Government.[1]

Since the issuance of the President's memorandum, the Department of Defense has moved rapidly. In fact, moved so rapidly that the Congress became wary of the speed with which action was being taken, and in the House Committee Report of June 9, 1967, it directed that the implementation of Project PRIME be postponed one year from July 1, 1967 until July 1, 1968.[2]

Although Congress prohibited the full scale implementation of PRIME at this time, additional testing was permitted in each of the services.

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[1] Presidential Memorandum, May 24, 1966, pp. 1 & 2.

[2] Congress, Department of Defense Appropriations Bill, 1968, p. 6.

Before examining the results of PRIME's test at Marine Corps Base, Quantico, it is appropriate to review the program's basic concepts. They are:

- That all resources; men, money, and materials, consumed in accomplishing a given mission can be measured with a reasonable degree of accuracy.
- That there is a measurable relation between the resources or inputs consumed by a unit or activity and its products or outputs.
- That the cost of military personnel services, the most important single element of "controllable costs" not now budgeted or accounted for, can be measured accurately and budgeted and accounted for in a meaningful manner, and that military personnel services are actually a "controllable cost" at the operating commander's level.
- That, because of this ability to accurately assign a value to the cost of military personnel services, commanders can be charged with 100 percent of expenses incurred by a unit rather than just a portion as before; and
- That because of this 100 percent charge commanders will be moved to manage more efficiently than previously.

The results achieved in the Motor Transport Company show the benefits of the application of the concept of Project PRIME to industrial/commercial type units. In this instance, PRIME was successful in creating cost consciousness, providing for more judicious allocation

of resources and permitting cost-benefit analysis to be used in decisions.

One of the aspects of Project PRIME is the measure of input against output. In other than industrial/commercial operations, the unit of output is difficult to measure. In fact, it may even be difficult to name. What is the unit of output for an infantry battalion—is it peace-days, non-wars, or some degree of preparedness? What is it for a military police unit—the number of times offenses are not committed? How does one judge one military police unit's non-crimes against others?

The difficulty in measuring input lies in the assessment of military manpower costs. Since under the Tables of Organization,[1] units of equal size are authorized equal numbers of personnel, very little is actually achieved by budgeting and accounting for military personnel costs. The military personnel costs for Marine Division X on the West Coast and Marine Division Y on the East Coast will be exactly the same.

The results of the test of Project PRIME at Marine Corps Base, Quantico, were described in a series of interviews and briefings held over a period of six months with Lieutenant Colonel E. R. DeLong, Comptroller, and Marine Corps Development and Education Command Project Officer for the test.[2]

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[1] A Table of Organization is a military personnel assignment table specifying the number and grade of personnel assigned to a unit.

[2] Interviews with Lt Col E. R. DeLong, Comptroller, Marine Corps Base, Quantico, Virginia, November 1967 through April 1968.

In the initial test directive, the Commandant of the Marine Corps directed that certain objectives be fulfilled. These objectives were first enumerated in Chapter III.

The first objective was to evaluate the practicality of merging resources currently contained in the two appropriations, Operations and Maintenance, Marine Corps, and Military Personnel, Marine Corps.[1] The Expense Operating Budget issued to the Marine Corps Development and Education Command did merge the resources available in these two allotments. Despite this merger, the Expense Operating Budget provided for separate accountability for military personnel expenses at standard rates and for the expenses incurred for operations. Subsidiary records, however, were maintained for each type of expense. Consequently real merging of resources was only partially achieved.

The second objective was to evaluate the parallel structuring of programming, budgeting, accounting, and reporting.[2]

Under PRIME, some separation of the data occurred when the Budget Project data were converted to the program element structure used in the test. This was readily identified at the organizational level and easily reconciled.

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[1] U. S. Marine Corps, Test Directive, p. 2.

[2] Ibid.

The third objective of the test was to analyze the ability of the system to provide managers at all levels at the test site and at higher echelons with information that will help them insure that resources are obtained, and effectively and efficiently utilized in the accomplishment of the mission and higher echelon objectives.[1]

In this connection Project PRIME required financial resources to be controlled by the Commander. This concept has long been the philosophy of the Marine Corps, financial and command responsibilities have been synonymous for a number of years. Financial resources have long flowed through command channels. One of the previous Commandants, General David M. Shoup, USMC described this principle when he said: "Our philosophy is that the real comptroller is the commanding officer, . . . Just as every commanding officer is his own communications officer and his own supply officer, even though he has a staff officer to assist him, so is he his own comptroller."[2]

The fourth objective was to assure that the system agreed with the intent and desire of interested Congressional Committees and other higher authority. The system as implemented in the test does provide this assurance.[3]

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[1] Ibid.

[2] James F. Wright, quoting General David M. Shoup, "Financial Management is Inherent in Marine Corps Command." Navy Management Review, Vol. XII, No. 7, p. 20.

[3] U. S. Marine Corps, Test Directive, p. 2.

The fifth objective was to evaluate the cost of implementing the system at the test site in relation to benefits realized.[1]

According to the PRIME Project Officer, Lt Col DeLong, the projected cost for the one year test period is $285,000. Up to the present time no tangible financial benefits have been identified as a result of using the system. Intangible benefits have accrued. The cost to implement PRIME has so far exceeded the benefits derived. As additional management improvements evolve from the system, some tangible savings may accrue.

The sixth objective was to assess the impact of test results in relation to Marine Corps-wide adoption of the Resource Management Systems concept.[2] All facets of PRIME have been given a full and honest test by the Marine Corps Development and Education Command. Some difficulty has been experienced. Certain areas still require "debugging." The year end close out of the books will be a major hurdle and must be completed before a full evaluation of the test can be made. For these reasons it is recommended that PRIME not be adopted Marine Corps-wide until fiscal year 1970.

The last objective of the test was to identify and recommend improvements or modifications to the concept of the systems of the

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[1] Ibid.

[2] Ibid.

test.[1] Tentatively it is proposed that a total of eleven recommendations will be made at the conclusion of the test. Ten will deal with the minutia of the procedures involved in Project PRIME. The final one will most probably recommend that the test be conducted for another year at the Marine Corps Development and Education Command and that Marine Corps-wide implementation be deferred until Fiscal Year 1970.[2]

PRIME has its limitations and its benefits. Its effectiveness bears a direct relation to the degree to which the military unit applying it is similar in function to an industrial/commercial activity. In units of a purely military nature, such as a reconnaissance company or an infantry battalion, PRIME has little application. At these levels it does not give the manager much more information of a useful nature than he had before. At its present stage of development, the cost of implementing PRIME and the effort involved in collecting costs over which the manager has absolutely no control are not worth the results achieved. The collecting of military costs in a unit whose strength is regulated by the Tables of Organization is futile since the commander does not have now, and will very likely never have, any control over these costs.

In order to reap the greatest advantages from PRIME and to minimize expenses involved in retraining military personnel in the more

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[1] Ibid.

[2] Interview with Lt Col DeLong, Quantico, Virginia, April 22, 1968.

sophisticated techniques required by the system, a modified application of the project should be instituted. In industrial/commercial type units, PRIME should be implemented just as designed and the personnel with the necessary skills to operate the system should be made available. These skilled personnel can be provided through more formal school instruction and increased on-the-job training. In order to accomplish this goal, the grade and educational level of certain billets within the unit comptroller's office will have to be raised. The benefits derived in industrial/commercial type operations will no doubt offset these additional expenses in the long run.

In combat organizations where the number of military personnel remains fixed by the constraints of the Table of Organization, military costing should be eliminated entirely.

It is incumbent upon the users of PRIME to evaluate the system and to seek the greatest benefits possible from it. So should the proponents of PRIME look carefully at the results of all the service tests and be willing to reduce or modify the scope of the system in areas where the efforts involved do not yield commensurate benefits.

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Croll, Captain Kay, Data Processing Officer, DPI-7, Marine Corps Base, Quantico, Virginia, January 5, 1968 and April 12, 1968.

DeLong, Lieutenant Colonel E. R., Comptroller, Marine Corps Base, Quantico, Virginia. Interviews November 1967 through April 1968.

Gouty, Major W. G., Accounting Officer, Marine Corps Base, Quantico, Virginia, December 14, 1967, March 21, 1968, and April 12, 1968.

Freme, Mr. Roy, Systems Accountant, Barracks and Marine Corps Districts, Procedures Section, Fiscal Division, Headquarters, Marine Corps, Washington, D. C., December 21, 1967 and April 12, 1968.

Kelbaugh, Captain J. R., Assistant Operations Officer, Motor Transport Company, Marine Corps Base, Quantico, Virginia, April 12, 1968.

Lilly, Lieutenant Colonel J., Assistant Budget Officer, Enlisted Personnel Plans and Programs, G-1 Section, Headquarters, Marine Corps, Washington, D. C. (G-1 Action Officer for Project PRIME), Interviews November 1967 through April 1968.

Regan, Mr. Eugene, Head, Major Post and Station Sub-Section, Procedures Section, Fiscal Division, Headquarters, Marine Corps, Washington, D. C., December 21, 1967 and April 12, 1968.